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Chain Store Age EXECUTIVE

with Shopping Center Age

The newsmagazine for retail management

February 1988

The petite market: Larger than it first appears

The Texas economy: Driving retailers plumb loco

TWENTY FIVE DOLLARS A YEAR (USA)

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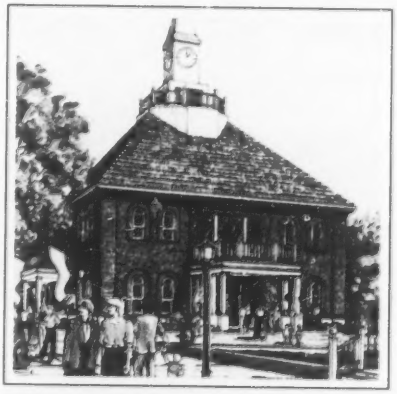

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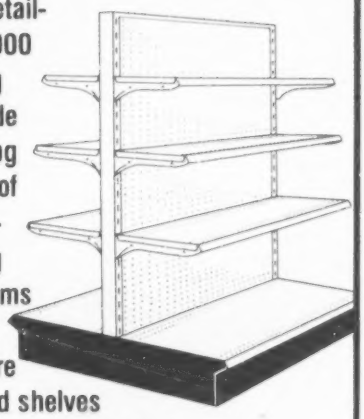

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WILL TEXAS RETAILERS FIND A HOME ON THE RANGE?

SLUGGISH RECOVERY CHALLENGES SALES GROWTH IN LONE STAR STATE

It's enough to make a cowboy go plumb loco.

Just as the Texas economy began to recover from the dual 1982 disasters of an unexpected drop in the price of oil and a devaluation of the Mexican peso, it's all happened again—albeit to a lesser extent.

The December 1987 drop in the price of oil, coupled with yet another devaluation of the peso in November, has further slowed an already sluggish recovery. For Texas-based retailers, the fallout from Black Monday is just more of the same.

"Overall, Texas has hit a point where it's probably one of the worst economies in the country," says Gary Kastel of Kastel Consulting, a retail consulting firm based in Dallas.

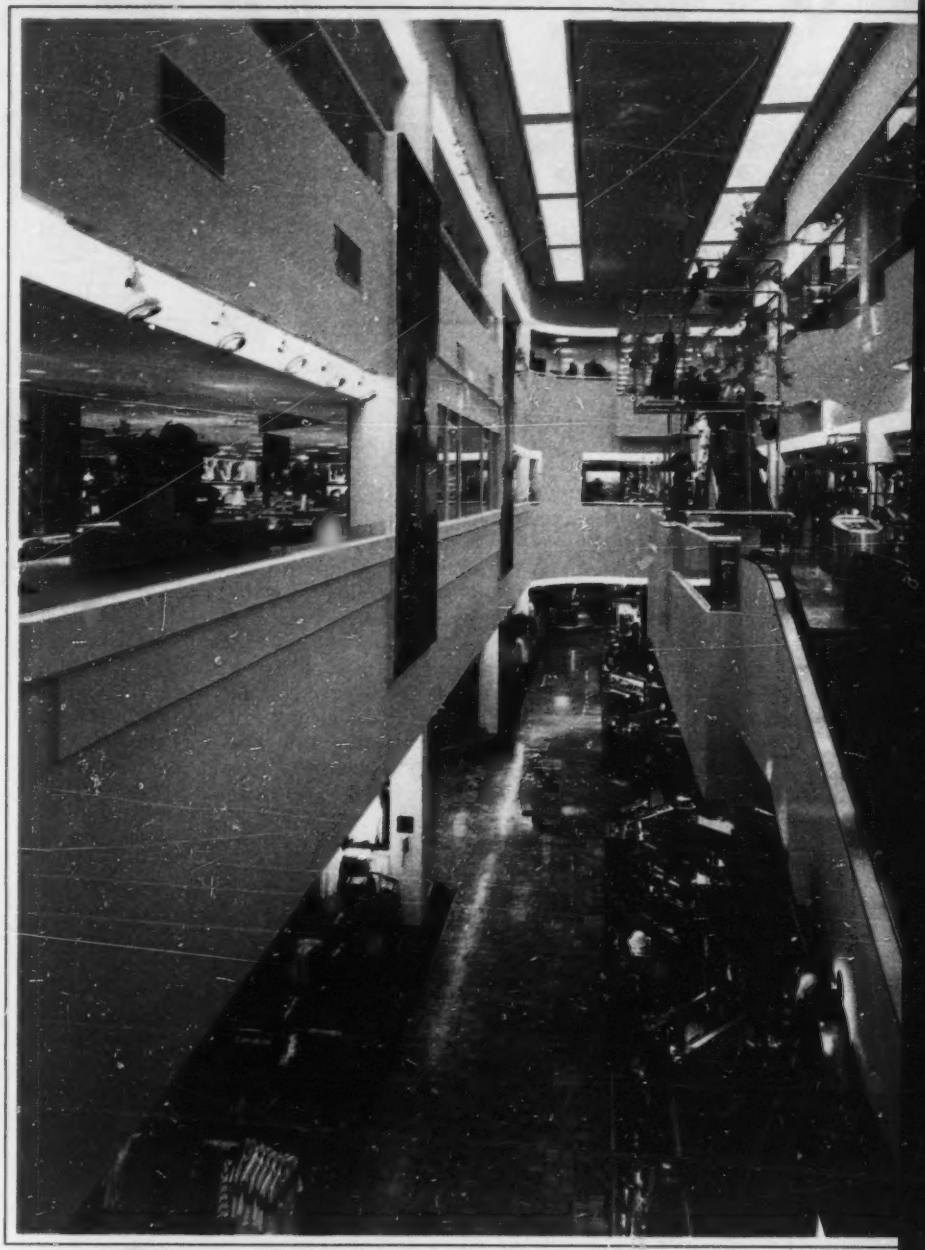
"The Texas recovery should continue, with some growth expected in the national economy next year, but the outlook has certainly softened since the stock market crash," observes Tom Plaut, senior economist for the Texas State Chamber of Commerce, headquartered in Austin.

Still, the aftershocks of Black Monday have left few Texas retailers crying in their beers. After all, as one merchant notes, "No one in Texas lost money in the stock market because they'd already lost it in oil and real estate."

While this might be an exaggeration, such losses have already shown up in their impact on retail sales over the last few years. According to figures supplied by the Texas comptroller of public accounts, retail sales growth has been fluctuating since 1983, finally declining in 1986. 1983 saw sales of $100.3 billion, a 4% increase over 1982.

The biggest jump came the following year, with an 11.7% increase; 1985 saw a more subdued, 6.6% growth. However, 1986 brought a 4.9% decline, a trend which has continued for the first quarter of 1987, the last period for which figures are available; compared with the first quarter of 1986, retail sales declined 5.6%. (Figures include automotive and restaurant sales, as well as the areas traditionally covered by *Chain Store Age Executive*.)

The earlier figures were fueled by the area's population increase. Despite the economic turmoil of the region, the population has continued to grow—and at a rate that outstrips the rest of the nation.



FOLEY'S: ONE RETAILER FACING A 'DOUBLE WHAMMY'

Total estimated Texas population from 1980 to 1987 shows an increase of more than 17%, compared with the 7.4% estimated national rise, according to the U.S. Census Bureau.

As would be expected, the greatest growth came during the early years of the decade, which constituted the "boom"; the 1980 population of 14,736,000 rose 3.57% and 4% during 1981 and 1982, respectively, based on Census Bureau estimates. The rate has been under 3% since, with the 1986 estimate of 16,685,000 a less than 2% increase over 1985 figures. The State Health Department estimates the 1987 population at 17,027,166.

THE PARKS AT ARLINGTON: HOMART DEVELOPMENT'S COMMITMENT TO THE DALLAS/FT. WORTH METROPLEX

Still, Texas no longer represents the golden opportunities for employment that it did in the early 1980s; during those years snowbirds from economically hard-hit areas (the Midwest, in particular) flocked to the Lone Star State. Some of them now may wish they had stayed up north.

According to the Texas Employment Commission, the 1986 unemployment figure of 8.9% exceeds 1983's post-dip high of 8%. The following year saw a rate of 5.9%; the 1985 jobless rate came to 7%.

More current figures for the period of June through November 1987 have fluctuated from a high of 9.6% in June to 7.9% in November, the last month for which figures were available at press time.

All of this continues to provide retailers with a challenge to keep people coming into the stores. Former Houston-based Foley's chairman Lasker Meyer, himself a Texas native, has been disappointed by the slow turnaround. "We really thought that 1986 was going to be the bottom, that with no layoffs being announced, we'd begin to see increased consumer confidence. There was no extra new competition in the marketplace; in fact, 1985 and 1986 saw the closing of many retail stores, including a lot of off-price stores that did not make it through the tough times. So we thought we'd begin to see a pick-up in sales in 1987. Unfortunately, that didn't happen."

According to Carl Steidtmann, vp and chief economist for Dublin, Ohio-based Management Horizons, a division of Price Waterhouse, the broader picture was somewhat different. "Texas retailing bounced back pretty strongly the first half of this year. The large urban markets, Houston and Dallas particularly, had strong retail performances," he says.

However, the future isn't without clouds. "I would not expect that [recovery] to continue for very much longer. There are a couple of problems that the economy faces. One is that a lot of the recent strength in sales just reflect that 1986 was a recession year, so that 1987 was a recovery. That recovery was essentially based on the elimination of a lot of excess oil capacity and a diversification of the Texas economy into more service-oriented components.

"However," he continues, "there's still a large oil sector. The recent decline in the price of oil, and our expectation is that that will continue, will again undermine the Texas economy. We would expect 1988 to be a year not unlike 1986 in terms of retail sales for Texas." Steidtmann again sees Houston as the hardest hit, but predicts that Dallas will be affected as well. Unemployment will again rise, into double digits.

Other financial analysts disagree. "The oil industry bottomed out in January of 1987," says Plaut, noting a slight improvement in the past year. In addition, the rise in drilling activity indicates the worst may be over, but "We're not going to see much growth for the next couple of years," he cautions.

"Things have stabilized," notes retail analyst Fred Wintzer of Alex. Brown & Sons, Baltimore. "Texas is now growing vs. really disappointing results last year, but it's not booming. I'd say the growth out of Texas is still below the national average."

Larry Gresham, associate director of the Center for Retailing Studies at Texas A&M University, College Station, sees diversification as the key to a new Texas.

For example, he cites the influx of high-tech medical firms into the city of San Antonio (the recent opening of Sea World there also created new employment opportunities) as well as Houston's attempts to diversify. Based on these and other activities, Gresham foresees "a broadening of the base of the economy away from oil. In five years I'm not sure it's going to make any difference to our economy what oil does to a large extent, and that will help us stabilize."

However, oil isn't the only problem. At Management Horizons, Steidtmann expects the latest devaluation of the Mexican peso to hurt the border regions as well as the city of Houston, as wealthy Mexicans no longer cross the border to shop. However, he notes, it can also have a beneficial effect. "The fall of the peso will probably encourage more illegal aliens to come here to work, and so the low

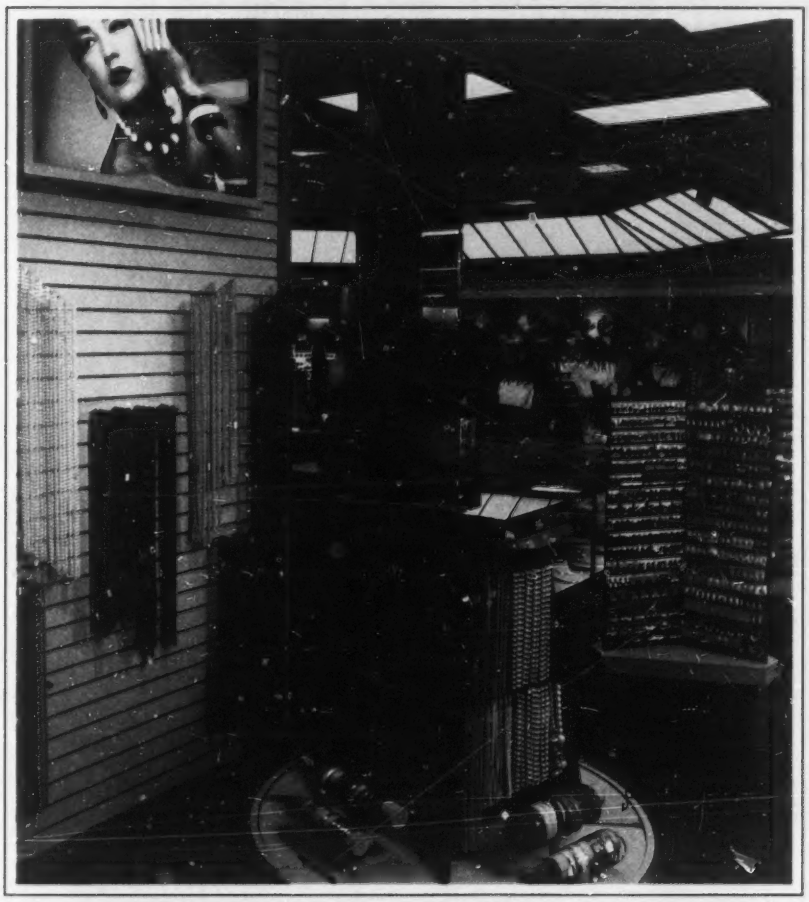
Texas retail sales 1982-87**

Year	Sales	% change
1982	$ 96,375,867,945	
1983	100,317,312,283	+ 4.0%
1984	112,084,311,150	+11.7
1985	119,441,163,064	+ 6.6
1986	113,589,410,256	– 4.9
1987 (1st qtr.)	25,199,486,971*	– 5.6

*compared with same period, 1986
**includes automotive and restaurant sales
Source: Comptroller of public accounts, Economic Analysis Center

end of the retail market will get some boost from that."

Again, others disagree. According to Greg Campbell, vp, south central region, for Chicago-based Homart, "A change in [oil] price of a dollar or two now doesn't seem to have an impact. The oil companies have already scaled back; I don't think there's much further they're going to go." He also notes that the wealthy Mexicans others had feared would stay home



MERVYN'S: 'NOT TERRIBLY DISPLEASED' WITH SALES IN ITS 36 TEXAS UNITS

have continued to spend money north of the border, a feeling expressed by other retailers as well.

C. W. Rule, director of public affairs, southern territory, Sears, Roebuck, agrees that 1986 was probably the low point, but notes that sales were up in 1987. Sears, Roebuck operates 58 full-line department stores in the state and, according to Rule, "Our expansion plans do not preclude Texas; we have opened several stores, and relocated the Beaumont and Sherman/Dennison stores." New Sears units are set to open in Arlington in 1988 and Farmer's Branch/Carrollton in 1989.

Many experts advise caution regarding expansion or new entry plans; the 1981-82 boom led to a great deal of new retail, not all of which survived the downturn. "There's been a tremendous expansion of retailing in Texas generally over the last few years, which was sort of a wide response to the economic boom we saw [in the early 1980s]," says Plaut. "There are probably new stores opening up in different parts of the state, but I'd guess sales per population in those stores are relatively weak."

One of those "new" stores, San Francisco-based Mervyn's which entered the market in 1981, is "not terribly displeased" with sales in its 36 stores in the state, says Rick N. Lodwick, vp-stores. Lodwick cites single to double-digit increases in the state, depending on the area.

"Houston is coming back for us; we're not hitting double-digit increases yet, but we're getting close to it," he says. "Dallas has been the toughest market, not Fort Worth, however," noting that the military bases in the area have helped that economy. Mervyn's is planning one store opening in Texas in 1988—in Arlington.

Still, overbuilding may be the major factor in retail's struggles, not the economy, according to Gresham. "We've now got Macy's, Saks, Marshall Field and Mervyn's, who weren't here five years ago; so some of our large department store chains that pretty well had certain cities sewn up—Foley's in Houston, Joske's in San Antonio and Neiman-Marcus in Dallas—have faced intensified competition. So between that and the slump in the oil economy, the retailers here have been caught in a double whammy."

The double whammy may actually have benefited discounters. Many retailers note that shoppers are watching for sales as never before, and taking advantage of every price-cutting opportunity. "My assumption is that people who, a year or two ago, would not have walked into [an off-price retailer] are now doing so," says Kastel.

According to Ernest H. Zost, vp and district sales manager for Clearwater, Fla.-based Eckerd Drug, shoppers have been cutting back on non-essentials. "Sales have been off for non-basic merchandise such as appliances, videotape and sundries; however, pharmaceuticals, over-the-counter and health and beauty aids have been strong. In fact, they've been supporting us." He notes that sales bottomed out in mid-1987 and have begun to turn around.

Eckerd has more than 350 stores throughout the state, with plans for additional expansion.

New retailers aren't the only ones eyeing moves into the area, according to Houston-based Palais Royal president and ceo Bernard Fuchs. A big drawing card is the fact that bankruptcies and high unemployment have reduced the cost of doing business in many Texas cities, Houston in particular, to a level where firms may consider it very cost-effective to move on in. As Fuchs explains, "With such a huge excess of commercial properties, housing, and retail space, tremendous bargains exist here."

The relatively low cost of office and warehouse space "will attract new business," he continues. "Houston is going to be a place where entrepreneurs will be attracted to start up their businesses at the lowest possible overhead. So the very problems that exist here in Houston will be the

very source of its revival."

Says Homart's Campbell, "I don't think there's any question that Houston and Dallas are markets where you have to be aggressive on your rents as a landlord to attract tenants. But I think we've had a good year leasing office space in Texas. I would say we've leased between 400,000 and 500,000 sq. ft. of office space in Texas this year. Business seems to be expanding, and people are making deals."

Homart is planning to open The Parks at Arlington this month to be anchored by Sears, Dillard's and Mervyn's, with an additional 150,000 sq. ft. already leased. Homart is also planning a joint venture in San Antonio with Melvin Simon & Associates to open in mid-summer.

Again, Campbell cites diversification as the key to Texas' future. "Increasingly, we see the major markets diversifying and attracting different kinds of businesses, which means they won't have the strong ups and downs kind of changes. The economy will be more stable, and that makes it a better place to invest."

"I don't think it can do anything but grow back again," says Lodwick, noting that growth may take a couple of years. "It's going to be a great retail state down the road." ■

—Debra Hazel

FOLEY'S AVOIDS STATE'S ILLS

DESPITE ECONOMY, IT HAS SURVIVED AND GROWN

FOLEY'S: SECOND IN SALES VOLUME AMONG FEDERATED DIVISIONS

Surviving and expanding in an at best uncertain environment may be the ultimate retail challenge. It is also one that the executive team at Dallas-based department store Foley's knows all too well.

The unexpected drop in oil prices and devaluation of the Mexican peso in 1982 delivered a one-two punch to Texas, Foley's home base. The state itself is still recovering.

Despite Texas' problems, Foley's, established in 1900, has survived and grown—January 1987 brought about the merger of Foley's with Dallas-based Sanger Harris, another Federated Department Store division. Estimated 1987 sales for the resulting division are $1.2 billion, accounting for 11% of Federated's total, according to a report issued by Seidler Amdec Securities, Los Angeles.

Thus, Foley's ranks second among all Federated divisions in terms of sales volume; Ralphs ranked first in 1987 with estimated sales of $2.3 billion and Bloomingdale's ranked third with estimated sales of $1.15 billion.

Prior to 1982, Foley's had steadily been posting double-digit sales increases. When the bad times hit, "Our sales increases began to drop off," recalls Lasker Meyer, Foley's recently-retired chairman. "I remember now that we thought there was a major catastrophe taking place since we weren't showing the kinds of sales increases we had been previously. But then each year after that it got worse."

From 1981 to 1982 sales increased by only 9.2%; they rose only a very modest 4.7% in 1983; the situation improved slightly in 1984 with a 9% gain. However, in 1985, sales remained essentially flat (falling by 0.003%).

This reversal of fortunes couldn't have come at a worse time, as Foley's and its home town competitors were all in the midst of expansion; Foley's itself was in the process of building new stores, Macy's was entering the Houston market, and Mervyn's was continuing its expansion into the region.

Meyer calculates that some 10 million sq. ft. of retail space was developed in the Houston area in 1982 and 1983, *excluding* strip centers.

"So we really had two problems: first, we had layoffs, which affected people's attitudes and their spending. Not only the people who were laid off [were affected; it was also] the people who were worried about being laid off. Second, we had more competition to fight for the dollars that were there," Meyer explains.

Was a period of economic turmoil the time to join forces with another Texas-based Federated division? On this question the opinions of Foley's leaders past and present differ. "Certainly, if you were trying to keep your head above water during a bad economy, you wouldn't plan a merger in the middle of it," Michael Steinberg, Foley's president, acknowledges.

Though the stores shared more than just common ownership, the transition wasn't always easy. "There were many more similarities than dissimilarities. Foley's had many more larger stores; Sanger's had some smaller units. Getting that squared away, with all the distribution challenges that you would have in having a range of stores of dissimilar size has been a major challenge, but I think we're handling it," says Steinberg. While all former Sanger stores are now Foley's, it was the latter who adapted to Sanger's computer system, causing the majority of employees to learn a new computer language.

"However," he adds, "it's important to stress that at the time, the decision to make the merger was correct."

"Actually, from an expense viewpoint, it was a good time," empha-